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PROPOSED ATTORNEYS FOR
THE DEBTORS-IN-POSSESSION

IN THE UNITED STATE BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

In re:	§	
	§	CASE NO. 10-47176-11
REOSTAR ENERGY	§	
CORPORATION,	§	
	§	(Chapter 11)
Debtor.	§	

In re:	§	
	§	CASE NO. 10-47198-11
REOSTAR GATHERING, INC.	§	
	§	(Chapter 11)
Debtor.	§	

In re:	§	
	§	CASE NO. 10-47201-11
REOSTAR LEASING, INC.	§	
	§	(Chapter 11)
Debtor.	§	

In re:	§	
	§	CASE NO. 10-47203-11
REOSTAR OPERATING, INC.	§	
	§	(Chapter 11)
Debtor.	§	

**DEBTORS' MOTION FOR INTERIM AND
FINAL ORDERS AUTHORIZING USE OF CASH
COLLATERAL PURSUANT TO 11 U.S.C. § 363**

REOSTAR ENERGY CORPORATION ("ReoStar Energy"), REOSTAR GATHERING, INC. ("**ReoStar Gathering**"), REOSTAR LEASING, INC. ("**ReoStar Leasing**") and REOSTAR OPERATING, INC. ("**ReoStar Operating**") (all collectively referred to as the "**Debtors**"), the debtors-in-possession in the above styled and numbered bankruptcy cases (the "**Bankruptcy Cases**"), file this *Debtors' Motion for Interim and Final Orders Authorizing Use of Cash Collateral Pursuant to 11 U.S.C. § 363* (the "**Motion**"), as follows:

Procedural Background

1. On November 1, 2010 (the "**Petition Date**"), the Debtors filed their respective voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code (the "**Bankruptcy Code**"), thereby initiating their Bankruptcy Cases and creating their respective bankruptcy estates (the "**Estates**").

2. The Debtors continue to operate their businesses and to manage the Estates as debtors-in-possession. No committee, trustee, or examiner has been appointed to date.

3. This Court has jurisdiction over the Bankruptcy Cases and the subject matter of this Motion pursuant to 28 U.S.C. §§ 157 and 1334. Consideration of this Motion is a core proceeding under 28 U.S.C. § 157 (b)(2). Venue of the Bankruptcy Cases before this Court is appropriate under 28 U.S.C. §§ 1408 and 1409.

Factual Background

4. On or about October 30, 2008, ReoStar Energy, as borrower, and Union Bank, N.A. ("**Union Bank**"), as lender, entered in to that certain *Credit Agreement* in the principal

amount of \$25,000,000.00. That same day, consistent with the *Credit Agreement*, ReoStar Energy, as borrower, and Union Bank as lender, entered into that certain *Promissory Note* in the principal amount of \$25,000,000.00 (the “**Note**”). The Note is secured by those certain Deeds of Trust, Security Agreements, Financing Statements, and Assignment of Production, Guaranty Agreements (executed on behalf of ReoStar Gathering, ReoStar Leasing, and ReoStar Operating) and other collateral instruments which were executed in favor of Union Bank on October 30, 2008 (*see* list of collateral instruments prepared by BTMK which is attached hereto as **Exhibit “1”** and incorporated herein by reference as if fully set forth.¹

5. ReoStar’s obligations under the Note, Credit Agreement, and related transactional instruments and rights relating thereto and thereunder (the “**Loan Documents**”) were acquired by BTMK through a purchase, sale, and assignment transaction that closed in or around August 14, 2010. BTMK is the current holder and owner of the Note. The principal balance under the Note is approximately \$12,000,000.00.

6. Debtors acknowledge that BTMK has asserted that the Debtors’ monetary obligations to Lender under the Loan Documents are secured by security interest(s) in cash proceeds and other cash equivalents from the operation of Debtors businesses. All cash and cash equivalent proceeds, including revenue derived from operations of various oil and gas wells, constitute “cash collateral” within the meaning of section 363(a) of the Bankruptcy Code (“**Cash Collateral**”).

7. Debtors generate revenue from operations and pay their bills from operations of oil and gas wells located in Texas. BTMK is the only entity with an interest in the Cash

¹ By reference to the Loan Documents and/or the borrowing relationship between Debtors and BTMK, Debtors are not, at this time, admitting to the validity or scope of the instruments or liens listed in the document.

Collateral.

8. Debtors need to use the Cash Collateral in order to operate and manage their businesses after the Petition Date and until the time of confirmation. Attached hereto as **Exhibit “2”** and incorporated herein by reference is a monthly operating budget (“**Budget**”) for the Debtors’ business operations for at least one-hundred and twenty (120) days following the Petition Date.

Request for Relief

9. Debtors require the use of the Cash Collateral to pay certain expenses of operations including, but not limited to: payroll, wages, utilities, professional fees, and other expenses necessary for its operation and identified more fully in the Budget. If Debtors does not have the use of the Cash Collateral, the Debtors will not be able to continue their business operations. Debtors assert that BTMK is more than adequately protected because of the present market value of the collateral which secures any indebtedness owing to BTMK under the Loan Documents, as well as the fact that Debtors are willing to give BTMK a post-petition lien and administrative super-priority claim in all collateral as to which they have a properly perfected pre-petition security interest and in cash generated by the daily operations of the Debtors businesses. Furthermore, the collateral, which includes land and operating interest and revenues, is not diminishing in value.

10. Based on the foregoing, Debtors request that the Court enter an order on an interim and then final basis authorizing Debtor to use the Cash Collateral and enter such other orders as may be appropriate under the circumstances.

Dated: November 1, 2010.

Respectfully submitted,

CANTEY HANGER LLP

By: /s/ Bruce W. Akerly

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CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was served by electronic submission through the Court's automated Case Management and Electronic Docketing System for the U. S. Bankruptcy Court for the Northern District of Texas, Fort Worth Division and/or by first class mail, postage prepaid, to those parties-in-interest entitled to be served with same and, specifically, by Federal Express, facsimile and/or electronic mail, to the following person/entities on this the 1st day of November, 2010:

BT and MK Energy Commodities, LLC

Attn: Mr. Tom Lionelli
350 Bedford Street
Suite 405
Stamford, Connecticut 06901

Counsel for BT and MK Energy Commodities, LLC

David S. Elder, Esq.
Gardere Wynne Sewell LLP
1000 Louisiana, Suite 3400
Houston, Texas 77002

United States Trustee

William T. Neary
United States Trustee
Earle Cabell Federal Building
Room 976
Dallas, Texas 75242

/s/ Bruce W. Akerly

Bruce W. Akerly

EXHIBIT 1

1. *Deeds of Trust, Security Agreement, Financing Statement and Assignment of Production* signed by ReoStar Energy, Corporation and recorded as follows:

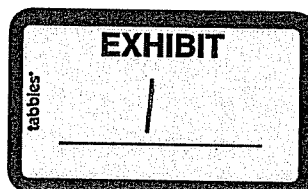
Jurisdiction	File Date	Document No./Book & Page.
Cooke County, TX	11/03/08	Doc # 00019704/Book OPR, Vol. 1607, Pg. 409
Gregg County, TX	11/03/08	Doc # 200823699
Montague County, TX	11/03/08	Instrument # 089625, Vol. 462, Pg. 725
Navarro County, TX	11/03/08	Doc # 00009947
Rusk County, TX	11/03/08	Doc # 00074425, Vol. 2892, Pg. 475
Wise County, TX	11/03/08	Doc # 2008-33612, Book OR, Vol. 1997, Pg. 848

2. *Act of Mortgage, Deed of Trust, Indenture, Security Agreement, Financing Statement and Assignment of Production* signed by ReoStar Energy, Corporation and recorded as follows:

Jurisdiction	File Date	Document No./Book & Page.
Caddo Parish, LA	11/03/08	Doc # 2195485

3. UCC-1 *Financing Statements* filed as follows:

Debtor	Jurisdiction	File Date	Document No./Book & Page.
ReoStar Energy, Corporation	Cooke County, TX	11/03/08	Doc # 00019705/Book OPR, Vol. 1607, Pg. 448
ReoStar Energy, Corporation	Gregg County, TX	11/03/08	Doc # 200823700
ReoStar Energy, Corporation	Montague County, TX	11/03/08	Doc # 089626, Vol. 462, Pg. 763
ReoStar Energy, Corporation	Navarro County, TX	11/03/08	Doc # 00009948
ReoStar Energy, Corporation	Rusk County, TX	11/03/08	Doc # 00074426, Vol. 2892, Pg. 506
ReoStar Energy Corporation	Wise County, TX	11/03/08	Doc # 2008-33613, Book OR, Vol. 1998, Pg. 1
ReoStar Energy, Corporation	Caddo Parish, LA	11/03/08	Doc. # 09-1104802 (UCC Index) and Doc. # 2195486 (Real Estate Index)
Benco Operating, Inc.	Texas Secretary of State	10/30/08	File # 08-0035434976
JMT Resources, LTD.	Texas Secretary of State	10/30/08	File # 08-0035435008
Reo Energy, LTD.	Texas Secretary of State	10/30/08	File # 08-0035435119
Reo Star Energy, Corporation	Nevada Secretary of State	11/03/08	Doc # 2008033667-9
ReoStar Gathering, Inc.	Texas Secretary of State	10/30/08	File # 08-0035435220
ReoStar Leasing, Inc.	Texas Secretary of State	10/30/08	File # 08-0035435331
ReoStar Operating Incorporated	Texas Secretary of State	10/30/08	File # 08-0035435553



4. *Memorandums of Assignment Agreement* signed by Union Bank in favor of BTMK and recorded as follows:

Jurisdiction:	Volume/Page or other	File Date:
Cooke County, Texas	Doc. # 00013709 Bk. OPR, Vol. 1706, Pg. 589	8/24/2010
Gregg County, Texas	Doc. # 201015981	8/24/2010
Montague County, Texas	Doc. # 108193, Vol. 531, Pg. 652	8/25/2010
Navarro County, Texas	Doc. # 00005964	8/25/2010
Rusk County, Texas	Doc. # 00098506, Vol. 3032, Pg. 396	8/25/2010
Wise County, Texas	Doc. # 2010-60965; Bk. OR, Vol. 2176, Pg. 575	8/24/2010

Exhibit "2"

Re: ReoStar Energy, et al.

Monthly Operating Budget beginning 11/1/2010

Revenue:		
Barnett	200,000	200,000
Corsicana	52,500	52,500
Severance Tax		
Barnett	(12,700)	(12,700)
Corsicana	(2,500)	(2,500)
LOE		
Barnett	(76,500)	(76,500)
Corsicana	(54,000)	(54,000)
Gross Profit	<u>106,800</u>	<u>106,800</u>
G&A:		
Salaries	32,406	32,406
EE Insurance	1,925	1,925
Payroll Tax	1,685	1,685
Rent	14,927	14,927
Telephone	1,273	1,273
Utilities	2,217	2,217
Office Supplies	1,925	1,925
Postage	50	50
Professional	35,000	35,000
D&O Insurance	3,622	3,622
P&C Insurance	6,000	6,000
Total G&A	<u>101,030</u>	<u>101,030</u>
Net Cash	<u>5,770</u>	<u>5,770</u>

